



March 2009



## Kentucky FSA Guaranteed Lender News

### LENDER MEETINGS

The dates and locations have been confirmed for this year's lender meetings. Attendance was down last year and we encourage all lenders to be represented at one of the meetings. Preferred and Certified lenders are required to attend. The meetings will begin at 9:30 a.m. and end around noon. If you have any areas of concern or questions that you would like us to cover at the meetings, please contact the State Office.



Tuesday, April 21st -  
Wednesday, April 22nd -  
Tuesday, April 28th -  
Wednesday, April 29th -  
Thursday, April 30th -

Winchester Extension Office  
Russell Springs - Lake Cumberland Area DD  
Bowling Green Extension Office  
Gilbertsville - KY Dam Village  
Elizabethtown - Nolin RECC

**"FARM LOANS ARE GOOD BUSINESS -- WE GUARANTEE IT!!"**

Lender Meetings.....	1
State Executive Director's Comments.....	2
Direct Down Payment vs. Joint Financing Loans.....	2,3
Servicing Guarantees.....	3
Unique Identifying Number.....	3
Electronic Processing of Loan Closings.....	3
Socially Disadvantaged Farmers and Ranchers.....	4
Median County Farm Acreage.....	4
Suggestions, Comments or Ideas.....	4



### Acting State Executive Director Comments



In the 2008 fiscal year, Kentucky obligated 101 farm ownership loan guarantees for a total of \$29,674,406 and 107 operating loan guarantees for a total of \$17,120,536. This pales in comparison to our sister state of Ohio. Just miles away, Ohio obligated 460 farm ownership loan guarantees for \$107,527,930 and 231 operating loan guarantees for \$28,259,120 last year.

When asked how they make so many guaranteed loans, the reply was that they have convinced lenders that FSA guarantees are the way to go especially with farm ownership loans. Think about it, with a farm ownership loan guarantee, you have real estate security which is stable and presents little likelihood of going down in value. You can assist customers with farmland purchases, farm improvements such as houses and service buildings and refinancing existing debt.

Lenders can use the secondary market to sell the guaranteed portion of the loan. The lender can transfer the risk of interest rate increases to the secondary market through the assignment of the guaranteed portion of the loan. The lender can also use funds received from the sale of the guaranteed portion of the loan for additional lending or investing activity. By selling the loan on the secondary market and keep a servicing fee, a lender may increase their return on the loan and reduce their interest rate risk. The presence of the secondary market creates the ability for lenders to provide longer fixed rate terms than they would normally offer.

Considering the economic outlook for 2009, the bad news is that overall agriculture has been affected. However, the good news is that the Farm Service Agency has the guaranteed loan program that can help both new and existing customers as well as the lender.

### Direct Down Payment vs. Joint Financing Loans

Which program is more beneficial to a beginning farmer or socially disadvantaged farmer? Let's consider the following scenario.

- Mary Farmer applies to purchase a farm for \$600,000. She is a beginning farmer and has \$30,000 in the bank.
- Bank of Farming has agreed to finance up to 50% of the purchase price at 8% with a 30-year amortization.
- Mary could do the loan as a joint financing loan where the bank will finance \$300,000 at 8% for 30 years and FSA will finance \$300,000 at 5% for 40 years.
- Mary could do a Down Payment loan where she contributes \$30,000 as a down payment; the bank finances \$345,000 at 8% with a 30-year amortization and a balloon payment in 20 years. FSA finances \$225,000 for 20 years at 1.5%.

#### Joint Financing Loan Program

Bank \$300,000 at 8% for 30 years = **\$26,649** annual payment.

FSA \$300,000 at 5% for 40 years = **\$17,484** annual payment.

Total payments = **\$44,133**

Mary has **\$30,000** to use for operating.

#### Down Payment Loan Program

Bank \$345,000 at 8% for 30 years = **\$30,646** annual payment.

FSA \$225,000 at 1.5% for 20 years = **\$13,107** annual payment.

Total payments = **\$43,753**

Mary uses **\$30,000** for down payment.

*(cont'd on page three)*

### **Direct Down Payment vs. Joint Financing Loans (cont'd)**

- If Mary needs to borrow \$30,000 for operating from FSA at 2 %, the interest accrual is \$600. You also need to consider the 20-year difference in the term of the FSA loan. When these are factored in with the payment through the down payment loan program, the joint financing loan appears to be slightly more beneficial to Mary.

Both are great programs and should be considered when working with an applicant.

### **Servicing Guarantees**

With the current downturn in the economy, lenders may find it necessary to service more guaranteed loans than in the past. There are several servicing options available to lenders while allowing the guarantee to remain intact.

Rescheduling involves changing the payment terms of a loan, such as a change in the interest rate or term in years of a note or line of credit agreement. If a line of credit is rescheduled, it is then shut off as to further advances. The new repayment schedule must be based on the borrower's ability to repay over the lesser of the maximum loan term or remaining life of the security. Keep in mind that a loan does not have to be in default before being rescheduled.

A deferral postpones the payment of principal and interest on farm ownership, operating and line of credit loans to accommodate a temporary inability of the borrower to make scheduled payments. Loan principal can be deferred in whole or in part. Interest may be deferred in part.

Detailed information concerning conditions and requirements for servicing of guaranteed loans, including requirements for specific lender type, may be found in the 2-FLP handbook.

### **Unique Identifying Number**

On August 18, 2008, GLS became the first FSA system to implement using the unique identification number in place of an applicant's/borrower's SSN/TIN. The change will reduce the level of exposure of their social security number. The applicant's/borrower's SSN/TIN will continue to be stored in GLS on a secure data table which will allow limited access for IRS reporting and any other situation where SSN/TIN is required.

GLS reports that currently include the applicant's/borrower's SSN/TIN will be modified to include the nine-digit unique identification number. GLS web pages, block mode screens, transactions, forms, reports and system-generated correspondence were also modified.

For lenders who submit data electronically through the USDA Lender Interface Network Connection (LINC) web site, the borrower's unique identification number will automatically be displayed on the GLS web screens. The last four digits of the borrower's SSN/TIN will also be displayed on the screen for informational purposes.



### **Electronic Processing of Loan Closings**

Lenders who have followed the guidelines and requirements for electronic reporting may now process guaranteed loan closings through USDA's LINC web-portal. A Power Point presentation at the following FSA/FLP/Guaranteed Farm Loan website: [http://www.fsa.usda.gov/Internet/FSA\\_File/lenders\\_loan\\_closing\\_process.ppt](http://www.fsa.usda.gov/Internet/FSA_File/lenders_loan_closing_process.ppt) will give lenders step-by-step instructions on how to electronically process loan closing information. Lenders will still need to mail the guarantee fee payment to the appropriate FSA office.

## Socially Disadvantaged Farmers and Ranchers

The U.S. Department of Agriculture's Farm Service Agency makes and guarantees loans to approved socially disadvantaged applicants to buy and operate family-sized farms and ranches.

A socially disadvantaged (SDA) farmer, rancher or agricultural producer is one of a group whose members have been subjected to racial, ethnic or gender prejudice because of his or her identity as a member of the group without regard to his or her individual qualities. SDA groups are women, African Americans, American Indians, Alaskan Natives, Hispanics, Asian Americans and Pacific Islanders.



The Farm Service Agency:

- Reserves direct and guaranteed loan funds for SDA persons. Non-reserved funds also can be used by SDA persons.
- Discovers and removes barriers that prevent full participation of those persons in FSA's farm loan programs; and
- Provides information and assistance to applicants to help them develop sound farm management practices, analyze problems and plan the best use of available resources essential for success in farming, ranching or other agricultural production.

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## Median County Farm Acreage

An applicant who applies for a direct or guaranteed FO loan as a beginning farmer must meet several loan eligibility requirements. To address one in particular, the Farm Service Agency (FSA) is required by law to determine if the applicant owns real farm property in aggregate acreage of which does not exceed 30 percent of the median acreage of the farms in the county where the property is located. In making this determination, FSA does not take into consideration the proposed real farm property to be purchased. FSA only considers the real farm property owned by the applicant at the time of the application. The median county farm acreage is provided by the Census of Agriculture which is taken every five years. A socially disadvantaged applicant is not restricted to the median county farm acreage requirement but does have to meet the family-sized farm requirement like other applicants. A chart is included with this newsletter reflecting each Kentucky county and the median farm acreage per the 2007 Census of Agriculture.



## SUGGESTIONS, COMMENTS OR IDEAS

FSA encourages lenders to provide suggestions, comments or ideas for future newsletter articles. Please contact the Farm Service Agency at 771 Corporate Drive, Suite 100, Lexington, KY 40503. Phone (859)224-7441.

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**LIST OF KENTUCKY COUNTIES AND THEIR MEDIAN FARM ACREAGE**  
**(Per the 2007 Ag Census)**

Adair	80	Grant	82	McLean	84
Allen	76	Graves	60	Meade	57
Anderson	79	Grayson	90	Menifee	75
Ballard	65	Green	84	Mercer	62
Barren	69	Greenup	86	Metcalfe	90
Bath	100	Hancock	100	Monroe	98
Bell	65	Hardin	62	Montgomery	80
Boone	43	Harlan	60	Morgan	100
Bourbon	80	Harrison	91	Muhlenberg	99
Boyd	61	Hart	83	Nelson	64
Boyle	70	Henderson	62	Nicholas	100
Bracken	100	Henry	99	Ohio	80
Breathitt	110	Hickman	82	Oldham	41
Breckinridge	108	Hopkins	91	Owen	111
Bullitt	44	Jackson	80	Owsley	100
Butler	110	Jefferson	28	Pendleton	95
Caldwell	100	Jessamine	46	Perry	80
Calloway	52	Johnson	97	Pike	60
Campbell	57	Kenton	55	Powell	78
Carlisle	70	Knott	90	Pulaski	77
Carroll	130	Knox	63	Robertson	119
Carter	92	LaRue	85	Rockcastle	75
Casey	92	Laurel	58	Rowan	75
Christian	100	Lawrence	127	Russell	61
Clark	66	Lee	94	Scott	65
Clay	100	Leslie	53	Shelby	53
Clinton	75	Letcher	30	Simpson	55
Crittenden	118	Lewis	133	Spencer	73
Cumberland	120	Lincoln	67	Taylor	68
Daviess	61	Livingston	109	Todd	100
Edmonson	83	Logan	87	Trigg	101
Elliott	110	Lyon	93	Trimble	80
Estill	98	Madison	75	Union	127
Fayette	49	Magoffin	90	Warren	56
Fleming	101	Marion	90	Washington	92
Floyd	72	Marshall	53	Wayne	90
Franklin	67	Martin	140	Webster	99
Fulton	90	Mason	100	Whitley	75
Gallatin	99	McCracken	51	Wolfe	103
Garrard	90	McCreary	55	Woodford	60